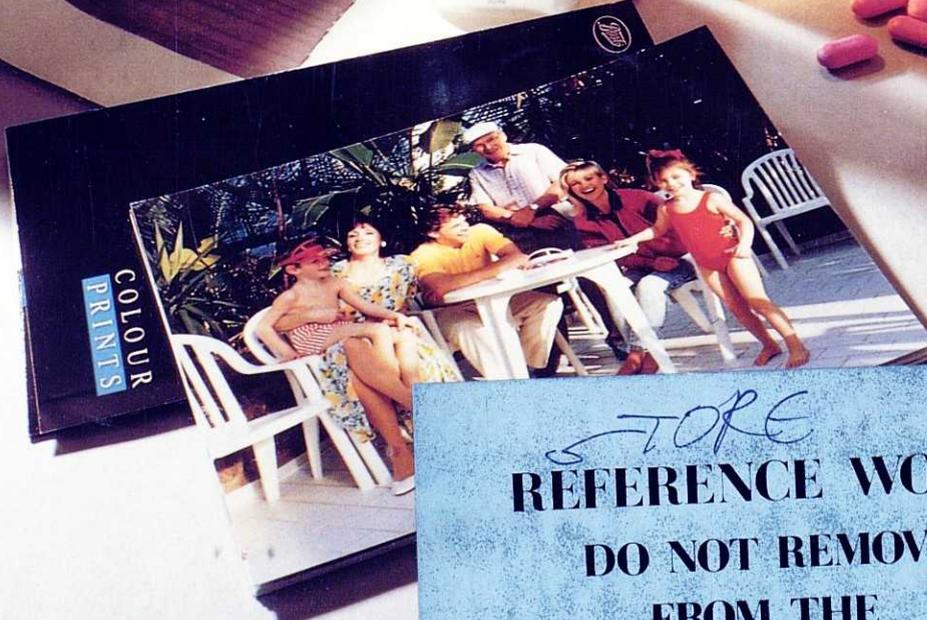
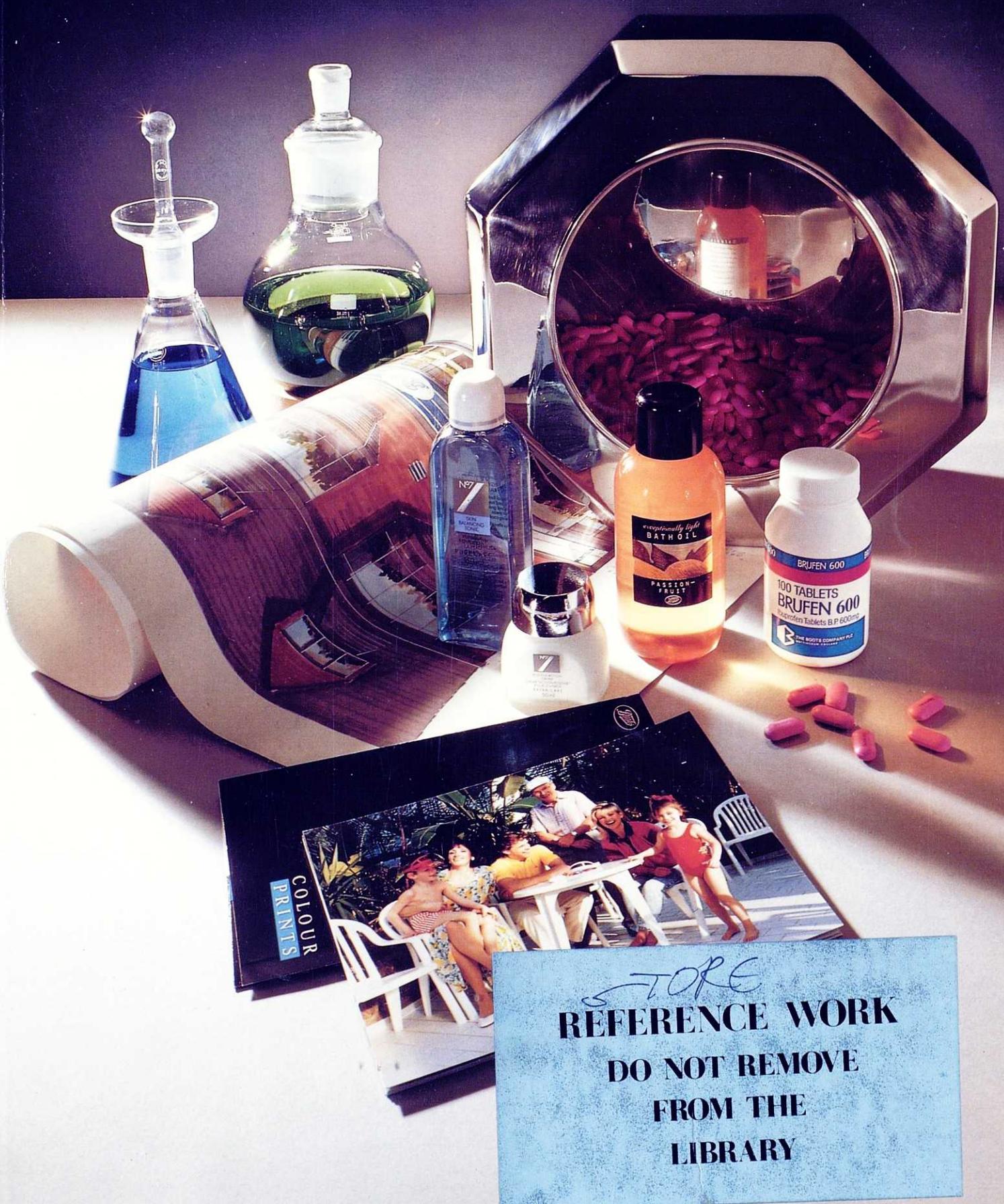




THE BOOTS COMPANY PLC

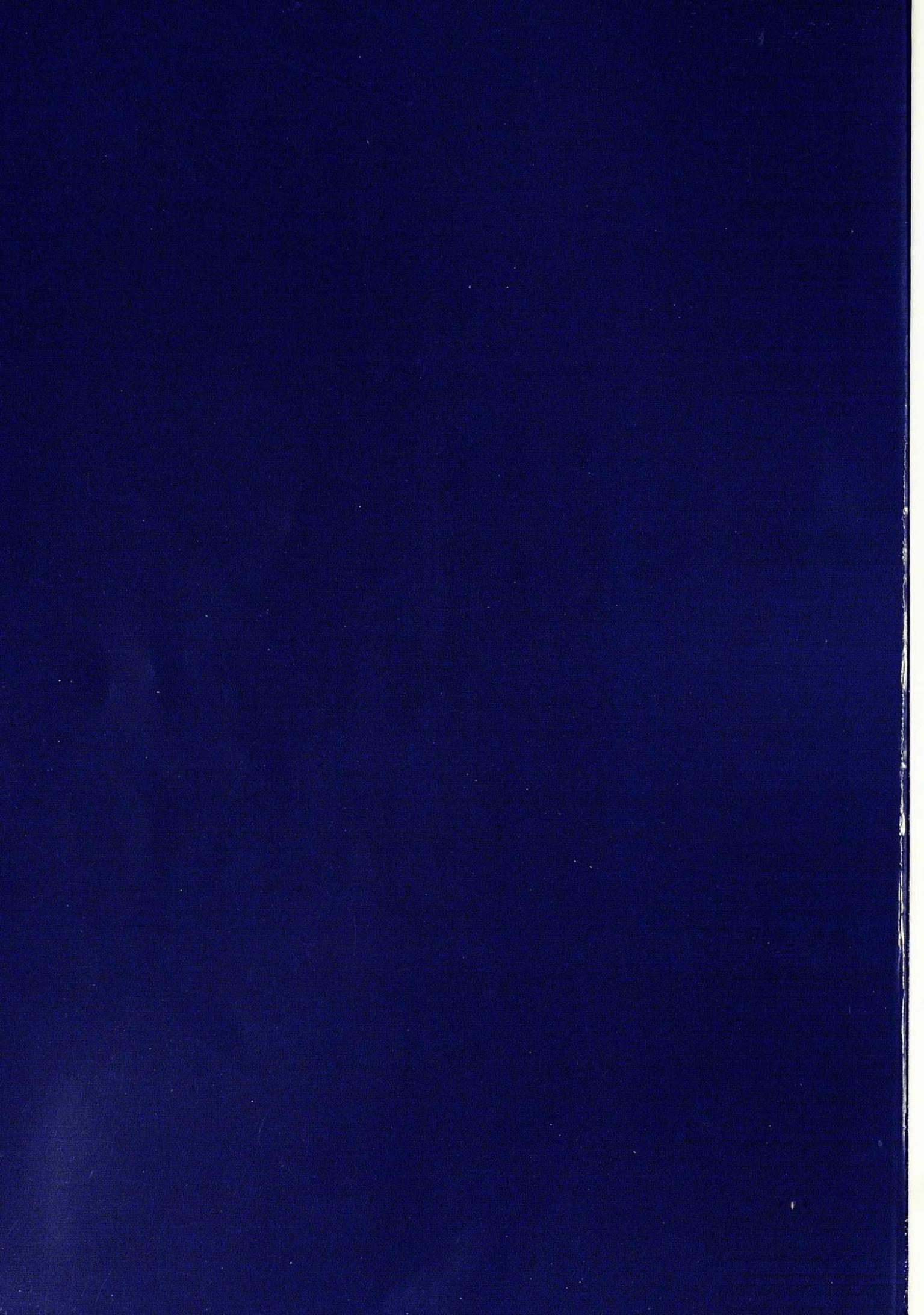
Report and Accounts 1989

FOR THE YEAR ENDED 31st MARCH 1989



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GROUP HIGHLIGHTS

for the year ended 31st March 1989

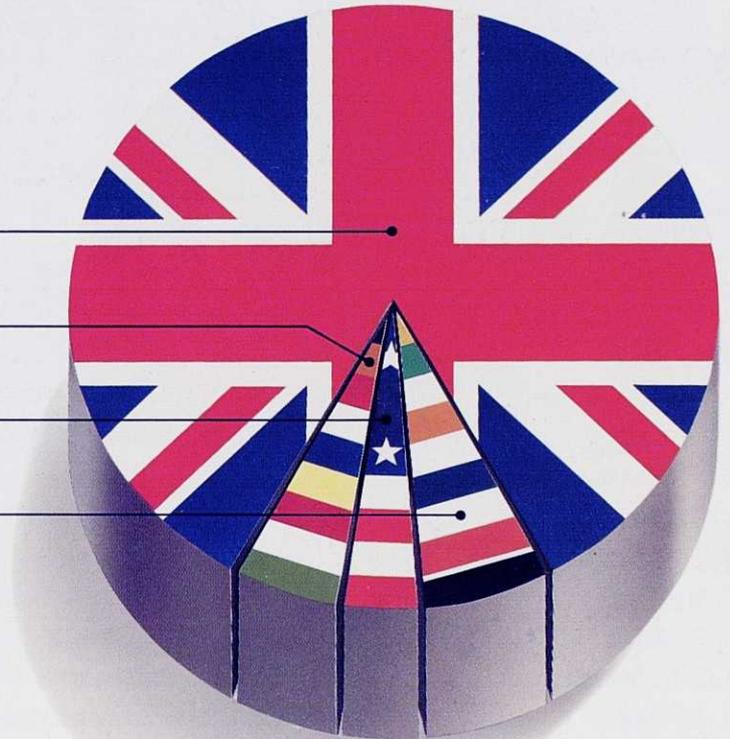
	1989	1988	% change	1988
	£m	comparable £m	on 1988	published £m
Turnover	2704.4	2589.8	+4.4	2697.1
Profit on ordinary activities before taxation	306.7	257.6	+19.1	267.2
Profit attributable to shareholders	203.4	182.4	+11.5	189.7
Capital expenditure	117.9	119.5		124.0
Research and development	39.1	33.7		35.9
Earnings per share	22.6p	19.6p	+15.3	20.4p
Dividend per share	10.0p	8.8p	+13.6	8.8p

Published figures for 1988 include results of overseas companies, other than certain related companies, for 15 months ended 31st March 1988. Comparable figures include these results for 12 months.

TURNOVER

by geographical destination

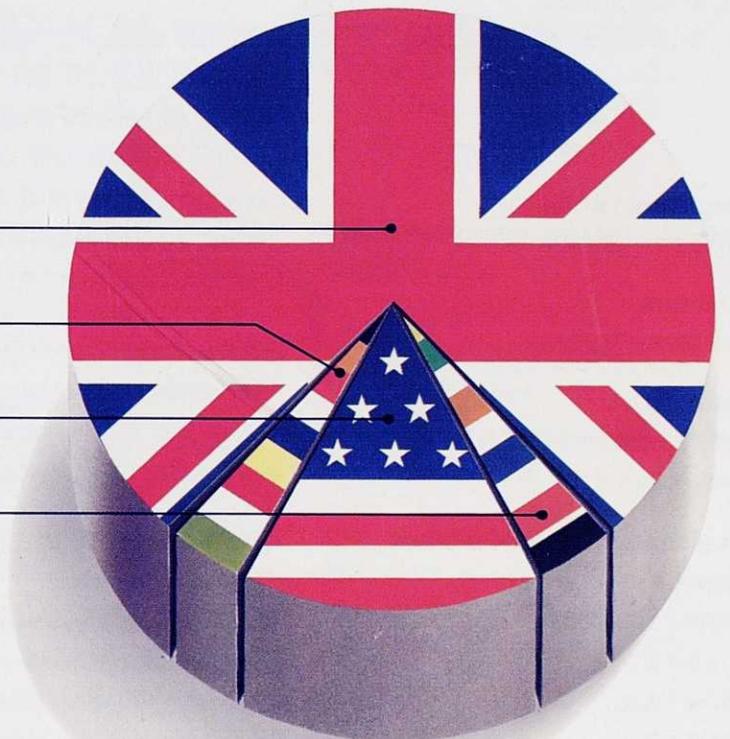
UK **83.4%**
Europe **5.8%**
US **4.1%**
Rest of World **6.7%**



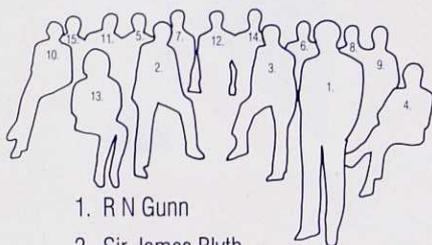
PROFIT

by geographical destination

UK **76.0%**
Europe **4.2%**
US **15.8%**
Rest of World **4.0%**



BOARD OF DIRECTORS



1. R N Gunn
 2. Sir James Blyth
 3. K Ackroyd
 4. E E Cliffe
 5. P H Courtney
 6. A H Hawksworth
 7. G M Hourston
 8. T G Richardson
 9. M F Ruddell
 10. G R Solway
 11. B H C Theobald
 12. A B Marshall
 13. The Baroness Oppenheim-Barnes
 14. I M G Prosser
 15. Sir Peter Reynolds
- Sir Christopher Benson (opposite)

Registered office

Nottingham, NG2 3AA

Auditors

Peat Marwick McLintock

Bankers

National Westminster Bank PLC
Barclays Bank PLC

Registrars and transfer office

National Westminster Bank PLC,
Registrar's Department,
P.O. Box 82,
Caxton House,
Redcliffe Way,
Bristol. BS99 7NH

R N Gunn *Chairman*

Robert Gunn, 63, joined the company in 1951 and became a director in 1976. He was appointed Vice Chairman and Chief Executive in 1983, and Chairman in 1985. He relinquished the duties of Chief Executive in October 1987. He is a non-executive director of Foseco.

Sir James Blyth *Chief Executive*

Sir James, 49, joined the company and the board in October 1987 as Chief Executive, after previous appointments as Group Managing Director of The Plessey Company, and Head of Defence Sales at the Ministry of Defence. He is a non-executive director of Cadbury Schweppes.

K Ackroyd *Managing Director*

Retail Division

Keith Ackroyd, 54, joined the company in 1952 and became a director in 1979. He is a Fellow of the Royal Pharmaceutical Society of Great Britain. He was appointed Managing Director of Boots The Chemists in 1983. He took up his present position in 1984.

E E Cliffe *Managing Director*

Pharmaceuticals Division

Eric Cliffe, 56, joined the company in 1959 and became a director in 1979. He has a D.Phil. degree and is a Fellow of the Royal Society of Chemistry and of the Institute of Biology. He took up his current position in 1983.

P H Courtney *Finance Director*

Peter Courtney, 56, joined the company in 1982 from the Rank Organisation where he held a similar position. He is a Chartered Accountant.

A H Hawksworth, TD

Personnel Director

Alan Hawksworth, 53, joined the company in 1959 and became a director in 1984. He was previously Director of Personnel—Pharmaceuticals Division. He is a Fellow of the Institute of Personnel Management.

G M Hourston *Managing Director*

Boots The Chemists

Gordon Hourston, 54, joined the company in 1958 and became Personnel Director on his board appointment in 1981. He is a Fellow of the Royal Pharmaceutical Society of Great Britain. He became Deputy Managing Director of Boots The Chemists in 1984 and took up his present position in June 1988.

T G Richardson *Marketing Director*

Pharmaceuticals Division

Terry Richardson, 52, joined the company in 1971 and became a director in 1983. His responsibilities now include marketing, UK sales, overseas businesses outside the US and research.

M F Ruddell *Managing Director*

Property Division

Mike Ruddell, 45, joined the company in 1966 and became a director in 1984. In 1986 he became Large Stores Director with responsibilities including merchandise and buying within Boots The Chemists. He took up his present position in June 1988.

G R Solway *Director, North America*

Pharmaceuticals Division

Gordon Solway, 52, joined the company in 1961 and became a director in 1979. An economist, he joined the Pharmaceuticals Division in 1983 with responsibility for production and other services. He took up his present position in 1986. He is based in Illinois, USA.

B H C Theobald *Corporate*

Development Director

Bernard Theobald, 54, joined the company in 1958 and became a director in 1979. He took up his present appointment in 1984.

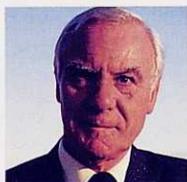


Non-executive Directors

A B Marshall *Vice Chairman*

Sandy Marshall, 64, became a director in 1981 and Vice Chairman in 1985. He is Chairman of the Commercial Union Assurance Company, and of the Maersk Company and a director of the Royal Bank of Canada.

Sir Christopher Benson, FRICS



Sir Christopher, 55, became a director in April 1989. He is Chairman of MEPC, having been Vice Chairman and Managing Director from 1976 to 1988. He is also Chairman of Reedpack and a director of Sun Alliance & London Insurance.

The Rt Hon Sally The Baroness Oppenheim-Barnes of Gloucester

Sally Oppenheim-Barnes, 58, who became a director in 1982, was a Member of Parliament from 1970 to 1987 and Minister of State for Consumer Affairs from 1979 to 1982. She is Chairman of the National Consumer Council and a director of Fleming High Income Investment Trust.

I M G Prosser

Ian Prosser, 45, became a director in 1984. He is Chairman and Chief Executive of Bass and is a director of Lloyds Bank. He is a Chartered Accountant.

Sir Peter Reynolds, CBE

Sir Peter, 59, became a director in 1986. He is Chairman of Ranks Hovis McDougall, deputy Chairman of Avis Europe and a director of Guardian Royal Exchange Assurance.

Board Audit Committee

Chairman A B Marshall
I M G Prosser
Sir Peter Reynolds

Board Remuneration Committee

Chairman R N Gunn
Sir James Blyth
Sir Christopher Benson
A B Marshall
The Baroness Oppenheim-Barnes
I M G Prosser
Sir Peter Reynolds

Secretary

I A Hawtin

STATEMENT BY THE CHAIRMAN



I am pleased to be able to report a very successful year for the Company. Group sales for the year were £2704 million and profits before tax £306.7 million. The 1987-88 figures included 15 months' trading results for our overseas subsidiary companies. On a comparable basis group sales increased by 4.4% and profits before tax by 19.1%.

Earnings per share grew by 10.8% (15.3% on a comparable basis) and the directors have recommended a final dividend of 6.5p per share making a total of 10.0p per share (1988: 8.8p per share), an increase of 13.6%.

Our strategy is to concentrate on our core businesses of Retail and Pharmaceuticals, improving the returns from the business by increasing management accountability and by driving for higher efficiency throughout the Company. In line with this strategy, we achieved significant gains in productivity and profitability during the year. We also made some acquisitions—most notably the Underwoods chain of chemists in London—and disposed of

Boots Drug Stores in Canada and our shopfitting factory in the UK.

The store development programme in Boots The Chemists continued, as did the rapid development of new merchandise ranges, many of them Boots Brands. Our progress in these areas and the rapid expansion of electronic point of sale systems to many more stores, enabled us to improve merchandising, gross margins and, most importantly, service to our customers.

Boots Opticians had an outstanding year, with very strong growth in sales and profits. The major changes taking place in this market do not affect our confidence that the medium and long term prospects for the business are excellent.

The number of Childrens World stores doubled during the year, and seventeen are now trading. We are very pleased with the increasing public response to the new chain although a shortage of prime sites may slow down the rate of growth. The Pharmaceuticals Division had a year of steady progress with very good results from North America and the International business.

Prescription medicines sold in the UK continued to suffer from parallel imports from within the EEC and from generic competition, but Crookes Healthcare, our UK consumer healthcare company, had another excellent year and strengthened its position in that market.

Clinical trials on Manoplax, our new cardiovascular product, are well advanced and we continue to be very encouraged by the results. We expect to submit applications for marketing authorisation in some major markets during the current year.

We have decided to manage separately our extensive UK property portfolio, and effective from 1st April 1989 we have established a Property Division. The division will be responsible for improving the total return on these important assets and will become progressively involved in property development, thereby providing an additional source of profit for the Group. At the same time we have had an

external valuation of most of our UK freehold and long leasehold properties. This has provided a surplus over book value of £568.9 million which has been included in the balance sheet.

I am delighted to welcome Sir Christopher Benson, Chairman of MEPC, as a non-executive director. Sir Christopher has very wide business experience, and I am sure will make a valuable contribution to the Board.

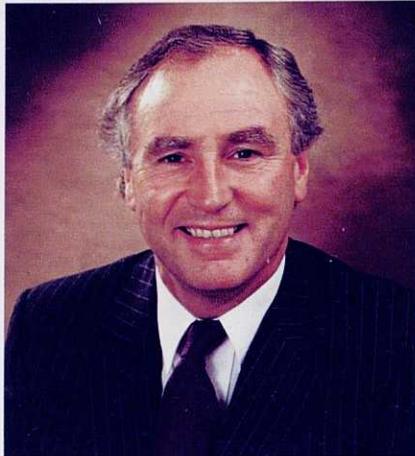
The excellent progress of the Company during the past year would not have been achieved without the commitment and wholehearted support of our staff at every level. We express our sincere thanks to them all.

The economic climate in which we operate is not likely to improve in the coming year but we have a healthy balance sheet and a strong and dedicated management team. I am confident that we are well placed to build on the progress made in the past year.



Robert Gunn, Chairman

CHIEF EXECUTIVE'S REVIEW



Sir James Blyth

Group Results

Profit before tax of £306.7m, was an increase of 19.1% over the previous year on a comparable basis. Net margins, excluding property disposal profits, increased by 1.8 percentage points to 10.9% of sales.

In the year under review the basis of transfer pricing between the Pharmaceuticals and Retail Divisions, was changed to bring about a more realistic situation and more clearly defined management accountability. (The Pharmaceuticals Division, of course, includes amongst its activities the manufacturing of products for the Retail Division). Retail Division sales were £2,305.1m and profit £196.0m. The major contribution was from Boots The Chemists with a profit increase on a comparative basis of 30.5%. Pharmaceuticals Division sales of £524.6m and profits of £95.0m reflect the change in transfer pricing and several other non-comparative factors, including the disposal of non-core

businesses and exchange rate fluctuations. After removing these factors to give a comparative basis, sales increased by 8.7% and profits by 5.4% over the previous year.

RETAIL

Boots The Chemists

Profits from Boots The Chemists, the UK chain of stores, were £184.8m, which on a comparative basis was an increase of 30.5%. Turnover increased to £2,084.0m (£1,928.0m), up 8.1%. Sales per square metre of sales area increased by 7.6%, and productivity by 11.1%.

These are excellent figures, which clearly indicate substantial changes brought about through the vigorous and rapid implementation of strategic decisions.

The essence of our strategy has been and remains to improve the performance of our existing sales area.

To achieve this we have mounted a programme with three major factors:

to improve the stores, making them attractive and inviting to customers;

to concentrate on product sectors where we can excel;

to achieve increasing efficiency.

During the year substantial progress was made in all three areas.

Most visibly, we completed the redesign and refurbishment of 285 stores, bringing the total of completions to two-thirds of the 1,056 strong chain within three years.

On the product front we have continued to define

Opposite: One of Boots largest stores—the Victoria Centre, Nottingham.

Right: Natural Collection—an exciting new range, developed in Boots Skin Care Laboratories and manufactured by Boots.





Boots

TATIONE

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CHIEF EXECUTIVE'S REVIEW



Right: Boots The Chemists serve over half the women and over a quarter of the men in the UK each week.

more clearly our total offering to customers, both through inventory rationalisation and the enhancement of core areas of the business such as healthcare, cosmetics, toiletries and photo processing.

Across the range we introduced new higher margin products. These included the successful launch of several own brands furthering the objective of increasing our own brand share of Boots The Chemists business from the present level of 39%, to over 45% over the next three years.

As part of the drive, in the toiletries area 'Natural Collection' was launched and achieved outstanding sales of nearly £6 million, in its first six months.

Another noteworthy own brand launch was that of Soltan Fragrance Free, as an addition to the Soltan range, which is number two in the suntan market with a 13% share.

In the Beauty area, successful new products launched during the year included: 'N07 for Sensitive Skin', 'N07 Pure Care' and range '2000', adding to the total cosmetic

offer, where we are market leader both as a retailer and manufacturer.

Photo processing achieved outstanding success by any standard. The in-store processing Mini Labs, which offer a one hour quality service, increased from about 200 to the present figure of over 280. Market share advanced rapidly during the year to 26%, and Boots is now the largest single retail operator of such Mini Labs in the world. We also increased film sales, with a share approaching 30% of the UK market.

Food sales continued to increase with over 340 stores offering a range of healthy snack foods, including sandwiches, a fast growing market, where we have rapidly established ourselves as the second largest retailer.

Throughout the operation there were marked gains in efficiency. Electronic Point of Sale (EPOS) was extended during the year from 42 to 182 stores, which account for over 45% of Boots The Chemists sales. (Boots with over 5,000 now has more scanning cash tills than any other retailer in Europe).

EPOS provides precise, up-to-the minute facts about sales and sales trends, thus giving management the information needed for rapid decisions.

During the year, we also achieved substantial savings in operating expenses. Careful management resulted in further productivity gains in store, warehousing and distribution costs. Administrative costs also remained under tight control.

In line with our strategy of concentrating investment, in January 1989 we acquired the Underwoods chain, 50 stores mainly located in Central London, where we were under represented. We disposed of 13, which performed inadequately or overlapped with existing Boots stores, and within four months had completely refitted the remaining 37 as Boots Health and Beauty stores. To date the move has proved a most successful initiative with both sales and profits ahead of budget.



Above: Childrens World—shopping for children with children. 17 stores now open. Children's fashion is a major success.

Boots Opticians

Boots Opticians, the second largest chain of opticians in the UK, had an outstanding year achieving very strong growth in sales and profits. Sales increased to £49.3m (£40.9m) and profits at £3.7m increased 32.1%. We now have a total of 258 practices including 11 major new outlets. The chain also benefited from the introduction of a number of in-practice Optical Laboratories, of which 40 are now in operation. These offer a two-hour service for the manufacture of spectacles; a very considerable customer benefit. More Optical Laboratories are planned.

The development and installation of a sophisticated practice-based computer system is well advanced. This will manage the extensive patient database and enhance dispensing procedures.

A number of changes affecting the market have

occurred, including the introduction of VAT on spectacles in September 1988, the restriction of free NHS sight tests on 1st April 1989, and the availability of ready-made reading spectacles in a wide range of outlets.

These factors show signs of curtailing the market for some time, but as one of the two biggest chains, we are highly confident about the prospects of the business.

Childrens World

During the year the Childrens World chain of stores, which specialises in merchandise for children up to 12, doubled in number to 16. The reaction of both parents and children to this new venture shows that the concept is right. The need is for more stores, and we must more aggressively gain prime 'edge-of-town' sites. During 1989 we plan to open at least another



Left: Boots Opticians—the second largest optical chain in the UK with over 250 practices—many with a two hour, in-practice manufacturing facility for spectacles.

1 hour service

Boots PHOTO-LAB express



PROMISE OF SATISFACTION

You can be satisfied with your photographs. If you are not satisfied, return them with your receipt in the original Boots film processing envelope. We will reprint them, or willingly refund your money. We want you to be happy with your photographs.



CHIEF EXECUTIVE'S REVIEW

Right: A mouth-watering sample of Boots Own Brand 'Healthy Foods'.



Opposite: Boots lorry leaving the Nottingham Headquarters site—fast, efficient distribution throughout the UK.

Below: A selection of specialist cosmetic and toiletry ranges, developed and manufactured by Boots.

This product has been successfully marketed by Upjohn and the transfer was part of the licence agreement with Upjohn to market flurbiprofen. Ansaïd, Upjohn's brand of flurbiprofen for the treatment of rheumatism, was approved in the US by the Food and Drug Administration and launched in January. We shall benefit from royalties and supplies of the raw material. Exports to the US decreased by 4% due to lower sales of over-the-counter ibuprofen tablets to our US licensee, Whitehall Laboratories, a Division of American Home Products Corporation, who during the year, commenced their own tablet manufacturing. However, this does not affect our excellent royalty receipts from an expanding product.

International

Sales by our international business outside North America showed an increase of 6% after adverse

currency exchange rates. At comparable rates, the increase over last year was 10%. The improvement came from the results of subsidiary companies and from exports to licensees and agents.

In Europe, our company in Belgium produced good growth from antirheumatic products, and in Spain the progress by Laboratorios Liade was aided by sales of products licensed from third parties.

In March 1989, we purchased the 45% shareholding in our Italian subsidiary company owned by Dott. Formenti SpA, thus establishing a wholly-owned subsidiary in Italy. Based on this company we intend to expand our business in Italy, the fifth largest pharmaceutical market in the world, and in April we purchased from another Italian company the rights to market two cardio-vascular products Kanrenol and Kadiur. Our companies in Australia and the Indian



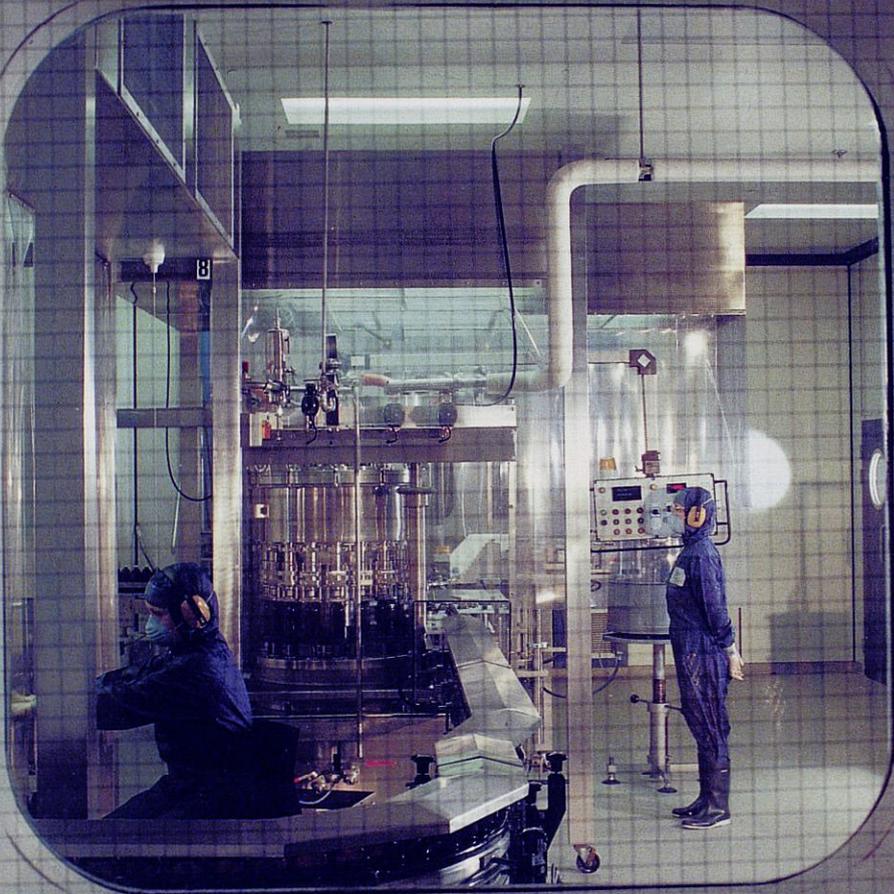


Roots

Roots

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CHIEF EXECUTIVE'S REVIEW



Left: A selection of some of the major products sold through Crookes Healthcare.

sub-continent both achieved good results. Boots Australia grew its business with strong performances from both prescription and consumer brands, and a significant contribution also came from an anti-ulcer product licensed from Japan. In Pakistan, Farley products, acquired in June 1987, performed well up to expectation and a production unit for these products is now under construction. Exports to Japan increased by 70%, particularly from the supplies of ibuprofen for over-the-counter products and of flurbiprofen for poultice formulations.

Production

A continuous programme of investment in our production facilities, together with a number of refinements in production techniques yielded further productivity improvements continuing the pattern established over the past few years. Our ibuprofen manufacturing units are the major source of supply for the growing world market. Ibuprofen, in terms of tonnage, is still the third most widely used medicine in the world. The joint venture with Hoechst Celanese to produce ibuprofen in the US has now been established and its production is scheduled to come on stream in 1992.

During the year we announced our intention of closing, in 1990, the 50 year old Farley factory in Plymouth. Infant milk and cereal production will be centralised in our modern well equipped factory in Kendal, which has the space and flexibility to meet future expansion as the business grows into the 1990s and beyond.

During the year our chemical plant at Cramlington, using state-of-the-art technology, successfully produced initial batches of flosequinan, the active ingredient of Manoplax. The Airdrie factory, which is the largest unit manufacturing cosmetics in Europe, is celebrating its 40th anniversary during 1989. Capital development programmes in recent years have ensured that it remains capable of efficiently meeting the demands of today's markets.

Research and Development

Clinical trials on Manoplax, in congestive heart failure, are well advanced and the results continue to be highly encouraging. The leading specialists who are conducting the clinical trial programme throughout the world have formed a very favourable opinion of this product.

Final assembly of all the necessary information to obtain regulatory approval has begun in order to apply for marketing authorisation in major markets.

Opposite: Looking through a double glazed window at the Optrex Lotion filling machine, enclosed in a sterile area.

Below: Eye Lotion 'bottle depalletiser' in the Sterile Products Factory.



CHIEF EXECUTIVE'S REVIEW

Right: - Pharmaceutical Specialities for rheumatism, mental illness and thyroid deficiency.



Opposite: Brufen tablets in the Diam Semi-Automatic Coating Unit—ibuprofen the active ingredient in Brufen is the world's third largest drug by tonnage.

Below: Strepsils—the world's largest selling antiseptic throat lozenge in pharmacies. Sold in over 90 countries, including the UK, Scandinavia, India and the Far East.

Our Japanese licensee, Otsuka Pharmaceuticals Co. Limited, has confirmed our experience with the product in cardiac failure and is extending the programme of clinical work for the Japanese market. The investigation of Manoplax in hypertension is progressing, as is the clinical work on BTS 54524, a novel anti-depressant.

The sustained release formulation of flurbiprofen, Froben SR has now been approved in Switzerland, Holland, France, Belgium, Eire and Pakistan in addition to the UK. A flurbiprofen poultice has been introduced in Japan through three marketing companies and the initial results have been very encouraging.

In the US a liquid preparation containing ibuprofen for treating fever and rheumatoid arthritis in children is under active review by the Food and Drug Administration, approval of which would provide a further marketing opportunity in the US.

Applications have been made in several EEC countries to market a once-a-day sustained release product based on ibuprofen for the relief of rheumatic diseases and pain.

Staff

The Company is undergoing a period of rapid

change and this impacts, perhaps above all else, on the 70,000 people who work for the organisation. Many of the tangible changes have been covered in the previous sections of this Review. However, there are also changes in attitudes, in pace, and in accountability which have made, and will continue to make, great demands on individuals throughout the organisation.

The need for change has been communicated through the whole range of techniques, from the face-to-face briefing sessions, and printed material to special professionally produced presentations and videos, and of course in formal training.

The response throughout the Company, from the most senior managers to the person behind the counter, the vital link with our customers, has been highly positive.

We have able and highly motivated people throughout the business, a position in UK retailing of unique strength, and a Pharmaceuticals business of enormous potential. The Company's objective is to maximise these strengths for the benefits of shareholders, employees and the community as a whole.





KEY EVENTS

Acquisitions

- January 1989* Acquisition of Underwoods for £41 million (50 store pharmacy chain, mainly in the London area)
- February 1989* Acquisition of remaining 45% of Boots-Formenti

Factories

- May 1988* New £6 million Sterile Products facility opened at the Headquarters site—Beeston, Nottingham
- June 1989* Announcement of the formation of a joint-venture company with Hoechst Celanese in the USA to manufacture ibuprofen

Events

- October 1988* Boots sponsored the 'Women of the Year' Luncheon in aid of the Greater London Fund for the Blind

Stores

- November 1988* New Boots The Chemists in Liverpool opened with a sales area of over 1,600 sq. metres

Products

- September 1988* Launch of Boots 'Range 2000' cosmetic products
Launch of Boots Natural Collection toiletry products
- October 1988* Ozone Friendly labelling commenced on Boots Own Brands
- December 1988* Launch of ANSAID (flurbiprofen) in the US by Boots licensees, Upjohn
- March 1989* Brufen's 20th Birthday

Rationalisation

- September 1988* Announcement of relocation of Retail Marketing office from Fulham to Nottingham
- January 1989* Announcement of the intention to set up a separate Property Division
Announcement of relocation of Boots Opticians' Head Office from Horsham to Nottingham and the closure of Corby manufacturing site
- April 1989* Rationalisation of Farley business. Announcement of the closure of Plymouth factory

Disposals

- April 1988* Hospital Products business sold
- April 1988* Disposal of 61 Canadian stores in the Western Provinces
- June 1988* Shopfitting factory sold for £9.5 million
- October 1988* Disposal of remaining 109 Canadian stores
- May 1989* Announcement of the intention to dispose of Clement Clarke industrial division

FINANCIAL CALENDAR

1989

8th June	Results and final dividend announced.
29th June	Report and accounts circulated.
27th July	Annual general meeting.
22nd August	Final dividend payable.
30th September	7¾% loan stock interest paid.
23rd November	Interim results and dividend announced.

1990

5th February	Interim dividend payable.
31st March	7¾% loan stock interest paid.

Capital gains tax

For capital gains tax purposes, market values on 31st March, 1982 were as follows:

Ordinary shares of 25p each	112.5p
£100 7¾% loan stock	£62.50

DIRECTORS' REPORT

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited accounts for the year ended 31st March 1989.

Principal activities

The group's worldwide trading has been conducted through two divisions, Pharmaceuticals and Retail. The principal activities of the former are the research, manufacturing and marketing of pharmaceuticals and consumer products. The Retail Division's principal activity is the retailing of chemist and other merchandise. A review of group activities by the Chief Executive is shown on pages 8 to 18.

A separate Property Division has now been formed to manage and develop the group's UK property portfolio. The results of this division will be separately reported with effect from 1st April 1989.

Group results

The group profit and loss account for 1989 shown on page 24 includes the following details:

	£m
Turnover	2704.4
Profit on ordinary activities before taxation	306.7

Appropriations

The directors recommend the payment of a final dividend of 6.5p per share which, if approved by shareholders, will be posted on 22nd August 1989 to shareholders registered on 29th June 1989. When added to the interim dividend of 3.5p already paid this makes a total dividend for the year of 10.0p per share (1988 8.8p per share). Payment of these dividends requires £92.6m (1988 £81.2m), leaving £110.8m (1988 £108.5m) retained in the business.

Group structure

In order to concentrate on its core businesses, the company has disposed of its remaining retailing interests in Canada and its shopfitting factory in the UK.

In January 1989 Underwoods plc, retail chemists, was acquired. In February 1989 the company purchased the minority interest in Boots-Formenti S.p.A. (now Boots Italia S.p.A.).

Share capital

Details of shares issued during the year are shown in note 19 on page 37.

Fixed assets

The group's UK freehold and long leasehold properties, excluding factories and specialised buildings, were professionally valued by Hillier Parker, and Weatherall Green and Smith, as at 31st March 1989. This valuation was on the basis of open market value for existing use. The valuation amounted to £818.5m and showed a surplus of £568.9m over net book value, which has been incorporated into the accounts.

It is not anticipated that any significant taxation will become payable on this revaluation surplus, as taxation on gains on properties sold in the normal course of business is expected to be deferred indefinitely.

Details of fixed assets are shown on pages 31 to 33.

Staff

The company continues to involve staff in the decision-making process, through management, a comprehensive structure of staff councils and trade unions where they represent staff. In addition *Boots News*, which is published every six weeks, is sent to employees throughout the world. This is supported by an annual report to staff and a video presentation, in which the directors report on group results.

In the UK, staff involvement in performance is

DIRECTORS' REPORT

encouraged through employee bonus and share schemes. The involvement of staff also extends to the board of Boots Pensions Ltd., on which there are four employee representatives.

The company's aim for all applicants and members of staff is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment of disabled people. Where an employee becomes disabled every effort is made to provide continuity of employment in the same job or a suitable alternative.

The training and re-training of staff is a high priority. Much of this training is on-the-job as well as by internal and external courses. The company has continued its high level of support for the Youth Training Scheme and during the year has co-operated in the government's new Employment Training Scheme.

Business in the Community

Our support for job creation through Business in the Community has been increased. The number of Local Enterprise Agencies to which we give financial or other support is now 119.

Charitable donations

Donations for charitable and educational purposes in the UK for the year were £734,000 (1988 £622,000). There were no political payments.

Directors

Sir Christopher Benson, FRICS, was appointed a non-executive director on 20th April 1989. In accordance with Article 107 Sir Christopher retires and offers himself for re-election. The Baroness Oppenheim-Barnes retires by rotation in accordance with Article 100 and offers herself for re-election. They have no service contracts with the company.

No director had any interest, either during or at the end of the financial year in any contract which was significant in relation to the group's business.

Details of the interests of the directors and their families in the share capital of the company are shown in note 24 on page 40.

Shareholders

The directors are not aware that any person held a beneficial interest in 5% or more of the share capital of the company at 8th June 1989.

Company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company.

Auditors

It is proposed to re-appoint Messrs. Peat Marwick McLintock as auditors and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
I A Hawtin, *Secretary*.
8th JUNE 1989.

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1989

	Notes	1989 £m	1988 comparable £m	1988 published £m
Turnover	2	2704.4	2589.8	2697.1
Trading profit	3	283.0	241.5	251.7
Interest and similar income	4	23.7	16.1	15.5
Profit on ordinary activities before taxation	2	306.7	257.6	267.2
Taxation on profit on ordinary activities	5	(96.8)	(75.9)	(78.1)
Profit on ordinary activities after taxation		209.9	181.7	189.1
Minority interests		(.8)	(.7)	(.8)
		209.1	181.0	188.3
Extraordinary items after taxation	6	(5.7)	1.4	1.4
Profit for the financial year attributable to shareholders	7	203.4	182.4	189.7
Dividends	8	(92.6)	(81.2)	(81.2)
Profit retained		110.8	101.2	108.5
Earnings per share	9	22.6p	19.6p	20.4p

In 1988 overseas companies of the group, other than certain related companies, adopted financial years coterminous with that of the parent company. They previously reported to 31st December.

To afford a fair comparison with the current year, figures for the comparable 12 months, based on unaudited management accounts, are disclosed above.

Movements in reserves are shown in note 20 on page 38.

BALANCE SHEETS

31st March 1989

	Notes	Group		Parent	
		1989 £m	1988 £m	1989 £m	1988 £m
Fixed assets					
Intangible assets	10	5.6	6.1	5.2	5.7
Tangible assets	11	1277.0	660.0	214.0	182.8
Investments	12	3.3	3.2	290.3	205.7
		<u>1285.9</u>	<u>669.3</u>	<u>509.5</u>	<u>394.2</u>
Current assets					
Stocks	13	405.9	412.5	161.3	150.8
Debtors	14	212.2	188.7	385.0	390.0
Investments	15	324.6	242.0	266.6	209.2
Cash at bank and in hand		4.2	6.5	.1	.1
		<u>946.9</u>	<u>849.7</u>	<u>813.0</u>	<u>750.1</u>
Creditors: amounts falling due within one year	16	(553.4)	(491.6)	(430.6)	(385.0)
Net current assets		<u>393.5</u>	<u>358.1</u>	<u>382.4</u>	<u>365.1</u>
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	17	(24.3)	(10.1)	(41.4)	(27.3)
Provisions for liabilities and charges	18	(16.4)	(18.5)	(14.4)	(16.8)
Net assets		<u>1638.7</u>	<u>998.8</u>	<u>836.1</u>	<u>715.2</u>
Capital and reserves					
Called up share capital	19	231.7	230.7	231.7	230.7
Share premium	20	14.0	7.4	14.0	7.4
Revaluation reserve	20	571.0	6.3	32.7	—
Profit and loss account	20	820.6	754.3	557.7	477.1
		<u>1637.3</u>	<u>998.7</u>	<u>836.1</u>	<u>715.2</u>
Minority interests		1.4	.1	—	—
		<u>1638.7</u>	<u>998.8</u>	<u>836.1</u>	<u>715.2</u>

Approved by the board

ROBERT N. GUNN

JAMES BLYTH

} Directors

8th JUNE 1989.

SOURCE AND APPLICATION OF FUNDS

for the year ended 31st March 1989

	1989		1988	
	£m	£m	£m	£m
Source				
Group trading:				
Profit on ordinary activities before taxation		306.7		267.2
Share of results of related companies		(1.2)		—
Depreciation less net surplus on disposal of fixed assets		47.5		34.0
		<u>353.0</u>		<u>301.2</u>
Dividends from related companies		.3		.3
Proceeds on disposal of tangible fixed assets		21.9		36.4
Loans		12.5		.1
Issue of ordinary shares		7.6		8.0
		<u>395.3</u>		<u>346.0</u>
Disposal of businesses		35.7		14.0
		<u>431.0</u>		<u>360.0</u>
Application				
Capital expenditure				
Investment in subsidiaries and businesses		55.4		14.4
Intangibles		.1		1.5
Change in creditors falling due after more than one year		(1.7)		.1
Repayment of loans		—		.3
Dividends paid		85.0		76.4
Taxation paid		77.1		83.3
Changes in working capital:				
Stocks	16.6		(9.1)	
Debtors	24.6		23.3	
Creditors falling due within one year	(.3)		(7.6)	
		<u>40.9</u>		<u>6.6</u>
Other items		(.6)		1.9
		<u>374.1</u>		<u>308.5</u>
Changes in net cash resources:				
Listed investments	5.0		24.8	
Short term deposits	74.3		41.9	
Cash at bank and in hand	(2.4)		(2.5)	
Bank loans and overdrafts	(20.0)		(12.7)	
		<u>56.9</u>		<u>51.5</u>
		<u>431.0</u>		<u>360.0</u>

Disposal of businesses comprises tangible fixed assets £11.8m, net current assets £24.8m, and loss £0.9m.

Investment in subsidiaries and businesses comprises tangible fixed assets £6.5m, goodwill £56.4m, deferred tax asset £2.2m, and net current liabilities of £9.7m. £43.1m of consideration was met in cash and £12.3m in variable rate loan notes.

Exchange differences on translation of results and opening net assets of overseas subsidiaries have been excluded from applications as they do not represent movements of funds.

NOTES RELATING TO THE ACCOUNTS

1 Accounting policies

The following accounting policies have been used in dealing with items material to the group accounts.

Basis of accounting

The accounts have been prepared under alternative accounting rules set out in the 4th Schedule to the Companies Act 1985, applying the historical cost convention adjusted by the revaluations of certain properties at open market value. A separate profit and loss account for the parent company has not been presented as permitted by section 228(7) of the Companies Act 1985.

Consolidation

The accounts combine the results of the company and its subsidiaries and related companies for the period, and to the extent, of group ownership, after eliminating intra-group transactions. The excess of cost of investments in subsidiaries over the fair value of net tangible assets acquired is written off to reserves.

Related companies are those companies in which the group has an equity interest of between 20% and 50% and over whose policies the group is able to exercise a significant degree of influence. The proportion of results attributable to the group is included in the group profit and loss account and dividends received from them are, therefore, excluded from investment income. In the group balance sheet investments in related companies are shown at the group's share of net assets excluding goodwill.

Foreign currencies

The results of overseas companies are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Assets and liabilities of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the date of the group balance sheet.

Translation differences are taken to reserves. Other exchange gains or losses are taken to trading profit. Overseas investments are stated at the rate of exchange in force at the date each investment was made.

Depreciation

No depreciation is provided on freehold land, shop freeholds and long leaseholds with more than 100 years to run, because of their high residual values, nor on assets in course of construction. Other tangible fixed assets are written off by equal instalments over their expected normal lives. The maximum life assumed for freehold buildings, other than shops, is forty years, and the lives assumed for fixtures and plant vary between three and twenty years.

Intangible fixed assets acquired, such as patents, trade marks and other product rights, are written off by equal instalments over their estimated lives which range between four and fifteen years. Similar assets generated from within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development

Expenditure, other than on buildings and plant, is charged against profits in the year in which it is incurred.

Pension funding

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trustee administered funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at regular intervals and include a review of contributions.

Certain companies operate their own pension schemes.

NOTES RELATING TO THE ACCOUNTS

Leases

The group's principal leased assets are properties held under operating leases. The costs of these leases are charged directly to the profit and loss account.

Deferred taxation

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the accounts and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets since any liability has been deferred indefinitely under capital gains provisions. Provision for taxation on the revaluation surplus is made to the extent that the gain is not expected to be sheltered by rollover relief under The Capital Gains Taxes Act 1979.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiary and related companies as the major part of these profits will not be remitted.

2 Turnover and profit on ordinary activities before taxation

	1989		1988	
	Turnover £m	Profit £m	Turnover £m	Profit £m
Pharmaceuticals Division				
UK (including exports)	315.4	37.0	323.1	46.3
Overseas	244.5	58.0	235.6	55.5
Intra-divisional	(35.3)	—	(39.5)	—
	<u>524.6</u>	<u>95.0</u>	<u>519.2</u>	<u>101.8</u>
Retail Division				
Boots The Chemists	2084.0	184.8	1928.0	132.9
Boots Opticians	49.3	3.7	40.9	2.8
Childrens World	26.6	(5.7)	11.3	(4.9)
Overseas	145.2	1.5	225.0	(4.1)
	<u>2305.1</u>	<u>184.3</u>	<u>2205.2</u>	<u>126.7</u>
Surplus on disposal of properties	—	11.7	—	21.3
	<u>2305.1</u>	<u>196.0</u>	<u>2205.2</u>	<u>148.0</u>
Inter-divisional	(125.3)	—	(134.6)	—
Net interest and unallocated items	—	15.7	—	7.8
	<u>2704.4</u>	<u>306.7</u>	<u>2589.8</u>	<u>257.6</u>
Overseas: quarter to March 1987	—	—	107.3	9.6
	<u>2704.4</u>	<u>306.7</u>	<u>2697.1</u>	<u>267.2</u>

Following a review of the manufacture, distribution and marketing of goods sold by Pharmaceuticals Division to Retail Division, changes in the basis of pricing of these goods were effected from 1st April, 1988. These result in a reduction in Pharmaceuticals Division turnover of £21.7m and a transfer of profit of £11.4m to Retail Division in 1989.

	1989		1988	
	Turnover £m	Profit £m	Turnover £m	Profit £m
Turnover by geographical destination and related profits are as follows:				
UK	2254.4	221.2	2078.9	188.2
Europe	157.3	12.1	153.0	11.0
US	111.9	46.1	105.8	43.4
Other Americas	100.4	2.9	180.8	(1.2)
Rest of World	80.4	7.5	71.3	8.9
	<u>2704.4</u>	<u>289.8</u>	<u>2589.8</u>	<u>250.3</u>
Share of results of related companies	—	1.2	—	(.5)
Interest and unallocated items	—	15.7	—	7.8
	<u>2704.4</u>	<u>306.7</u>	<u>2589.8</u>	<u>257.6</u>
Overseas: quarter to March 1987	—	—	107.3	9.6
	<u>2704.4</u>	<u>306.7</u>	<u>2697.1</u>	<u>267.2</u>

Turnover comprises sales to external customers excluding sales taxes.

NOTES RELATING TO THE ACCOUNTS

3 Trading profit

	1989 £m	1988 £m
Turnover	2704.4	2697.1
Cost of sales	(1619.9)	(1649.3)
Gross profit	1084.5	1047.8
Selling, distribution and branch costs	(690.4)	(691.5)
Research and development costs	(39.1)	(35.9)
Administration costs	(99.3)	(101.7)
Surplus on disposal of properties	11.7	21.3
Other operating income	14.4	11.7
Share of results of related companies	1.2	—
Trading profit	283.0	251.7
Trading profit is after charging:		
Property rents	49.5	45.2
Depreciation	57.4	54.1
Computer and plant hire	5.5	5.2
Remuneration of auditors	.7	.7
The key average exchange rates for the year were:		
US dollar	1.76	1.67
Deutschemark	3.17	2.98
Australian dollar	2.18	2.36

4 Interest and similar income

Interest receivable:

Listed investments	7.0	4.0
Short term deposits	24.3	21.7
	31.3	25.7

Interest payable:

Bank loans and overdrafts:		
Repayable within five years	(6.9)	(9.7)
Other loans:		
Repayable after five years	(-2)	(-4)
Repayable within five years	(-5)	(-1)
	(7.6)	(10.2)
	23.7	15.5

NOTES RELATING TO THE ACCOUNTS

5 Taxation

	1989 £m	1988 £m
The charge on the profit of the year consists of:		
UK corporation tax at 35%	93.9	72.4
Deferred taxation	(3.4)	(3.2)
Relief for overseas taxation	(5.2)	(.5)
	<hr/>	<hr/>
UK taxation	85.3	68.7
Overseas taxation	9.3	5.9
Overseas deferred taxation	1.6	2.7
Share of taxation of related companies	.6	.8
	<hr/>	<hr/>
	96.8	78.1
	<hr/>	<hr/>
Unprovided deferred taxation in respect of the year:		
Capital allowances	6.2	(2.9)
Capital gains taxation	2.5	6.6
Other items	(2.4)	2.2
	<hr/>	<hr/>
	6.3	5.9
	<hr/>	<hr/>

6 Extraordinary items after taxation

Loss on closure and disposal of businesses	(9.7)	(8.5)
Profit on disposal of businesses	3.0	10.8
	<hr/>	<hr/>
	(6.7)	2.3
Taxation (including deferred taxation of £1.3m)	1.0	(.9)
	<hr/>	<hr/>
	(5.7)	1.4
	<hr/>	<hr/>

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders £173.2m (1988 £145.9m) is dealt with in the accounts of the parent company.

8 Dividends

Interim paid of 3.5p per share (1988 3.1p)	32.4	28.6
Final proposed of 6.5p per share (1988 5.7p)	60.2	52.6
	<hr/>	<hr/>
10.0p	92.6	81.2
	<hr/>	<hr/>

9 Earnings per share

Earnings per share are based on 925.0m (1988 921.7m) average ordinary shares in issue, weighted on a time basis, and profit before extraordinary items of £209.1m (1988 comparable £181.0m: 1988 published £188.3m).

The effect on earnings per share of the exercise of outstanding share options by directors and employees would not be material.

NOTES RELATING TO THE ACCOUNTS

10 Intangible fixed assets

Patents, trade marks and other product rights acquired.

	Group £m	Parent £m
Cost		
At 31st March 1988	7.2	6.7
Additions	.1	.1
At 31st March 1989	<u>7.3</u>	<u>6.8</u>
Depreciation		
At 31st March 1988	1.1	1.0
Depreciation for year	.6	.6
At 31st March 1989	<u>1.7</u>	<u>1.6</u>
Net book value at 31st March 1989	<u>5.6</u>	<u>5.2</u>

11 Tangible fixed assets

The group's UK freehold and long leasehold properties, excluding factories and specialised buildings, were professionally valued by Hillier Parker, and Weatherall Green and Smith, as at 31st March, 1989. The valuation was on the basis of open market value for existing use. This valuation amounted to £818.5m (parent £48.3m) and the resulting surplus of £568.9m (parent £32.7m) over net book value has been incorporated below.

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(a) Group					
Cost or valuation					
At 31st March 1988	387.9	159.5	392.6	18.0	958.0
Currency adjustments	3.6	1.4	1.0	.1	6.1
Additions	23.9	24.7	55.1	14.2	117.9
Subsidiaries acquired	7.3	—	.3	—	7.6
Disposals: businesses	(9.0)	(3.4)	(11.1)	—	(23.5)
other	(7.1)	(8.9)	(13.6)	—	(29.6)
Reclassifications	7.1	2.5	6.3	(15.9)	—
Revaluation surplus	<u>537.8</u>	<u>—</u>	<u>—</u>	<u>5.7</u>	<u>543.5</u>
At 31st March 1989	<u>951.5</u>	<u>175.8</u>	<u>430.6</u>	<u>22.1</u>	<u>1580.0</u>
Depreciation					
At 31st March 1988	62.0	67.4	168.6	—	298.0
Currency adjustments	.6	.6	.6	—	1.8
Depreciation for year	5.9	15.3	35.6	—	56.8
Subsidiaries acquired	.9	—	.2	—	1.1
Disposals: businesses	(3.1)	(1.8)	(6.8)	—	(11.7)
other	(-7)	(6.1)	(10.8)	—	(17.6)
Reclassifications	(-4)	—	.4	—	—
Eliminated on revaluation	<u>(25.4)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(25.4)</u>
At 31st March 1989	<u>39.8</u>	<u>75.4</u>	<u>187.8</u>	<u>—</u>	<u>303.0</u>
Net book value at 31st March 1989	<u>911.7</u>	<u>100.4</u>	<u>242.8</u>	<u>22.1</u>	<u>1277.0</u>

NOTES RELATING TO THE ACCOUNTS

11 Tangible fixed assets (continued)

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
(b) Parent					
Cost or valuation					
At 31st March 1988	71.1	130.3	97.7	4.7	303.8
Additions	4.5	11.6	11.5	5.0	32.6
Disposals	(7.6)	(10.5)	(4.5)	—	(22.6)
Reclassifications and transfers	—	2.2	.3	(2.9)	(.4)
Revaluation surplus	26.9	—	—	—	26.9
At 31st March 1989	94.9	133.6	105.0	6.8	340.3
Depreciation					
At 31st March 1988	19.5	56.7	44.8	—	121.0
Depreciation for year	1.6	10.6	9.7	—	21.9
Disposals	(1.1)	(6.7)	(2.8)	—	(10.6)
Transfers	—	—	(.2)	—	(.2)
Eliminated on revaluation	(5.8)	—	—	—	(5.8)
At 31st March 1989	14.2	60.6	51.5	—	126.3
Net book value at 31st March 1989	80.7	73.0	53.5	6.8	214.0

	Group		Parent	
	1989 £m	1988 £m	1989 £m	1988 £m
Net book value of land and buildings comprises:				
Freehold	728.8	244.5	78.9	48.3
Long leasehold (more than 50 years unexpired)	128.3	32.9	.5	2.1
Short leasehold	54.6	48.5	1.3	1.2
	911.7	325.9	80.7	51.6
Analysis of cost or valuation:				
Cost	752.5	930.7	284.2	293.1
Independent valuation 1989	818.5	—	48.3	—
1965	1.1	16.5	—	—
1959	.1	.1	—	—
1958	7.8	9.6	7.8	9.6
Directors' valuation 1971	—	1.1	—	1.1
	1580.0	958.0	340.3	303.8
Net book value of tangible fixed assets under the historical cost convention	701.0	652.6	180.2	181.7

NOTES RELATING TO THE ACCOUNTS

12 Fixed assets—investments

	Related companies £m
(a) Group	
Share of net tangible assets at 31st March 1988	3.2
Share of results for the year	.6
Dividends paid	(1.3)
Currency adjustments	(1.2)
	<hr/>
Share of net tangible assets at 31st March 1989	3.3
	<hr/>

The cost of investments in related companies is £0.5m (1988 £0.5m).

	Shares in subsidiaries £m	Loans to subsidiaries £m	Shares in related companies £m	Total £m
(b) Parent				
Cost				
At 31st March 1988	191.9	269.5	.5	461.9
Additions	55.7	2.0	—	57.7
Repayments and disposals	—	(1.3)	—	(1.3)
Currency adjustments	—	26.4	—	26.4
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 1989	247.6	296.6	.5	544.7
	<hr/>	<hr/>	<hr/>	<hr/>
Provision				
At 31st March 1988	126.3	129.9	—	256.2
Movement	.9	(2.8)	.1	(1.8)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 1989	127.2	127.1	.1	254.4
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31st March 1989	120.4	169.5	.4	290.3
	<hr/>	<hr/>	<hr/>	<hr/>

The list of principal companies shown on pages 42 and 43 forms part of this note.

NOTES RELATING TO THE ACCOUNTS

13 Stocks

	Group		Parent	
	1989 £m	1988 £m	1989 £m	1988 £m
Manufacturing:				
Raw materials	31.4	28.9	19.1	18.4
Work in progress	19.9	18.5	14.7	14.3
Finished goods	33.8	32.5	9.7	11.8
	85.1	79.9	43.5	44.5
Retailing	320.8	332.6	117.8	106.3
	405.9	412.5	161.3	150.8

14 Debtors

Falling due within one year:				
Trade debtors	128.1	118.9	82.2	75.4
Owed by group companies	—	—	252.6	278.5
Owed by related companies	—	-9	—	-9
Other debtors	26.0	25.9	8.9	4.7
Prepayments and accrued income	30.2	21.5	16.3	10.2
	184.3	167.2	360.0	369.7
Falling due after more than one year:				
Advance corporation tax	20.1	17.5	20.1	17.5
Other debtors	7.8	4.0	4.9	2.8
	212.2	188.7	385.0	390.0

15 Current assets—investments

Listed investments	64.8	59.8	64.7	59.7
Short term deposits	259.8	182.2	201.9	149.5
	324.6	242.0	266.6	209.2
Market value of investments listed on The International Stock Exchange	65.1	59.8	65.0	59.7

NOTES RELATING TO THE ACCOUNTS

16 Creditors: amounts falling due within one year

	Group		Parent	
	1989 £m	1988 £m	1989 £m	1988 £m
Bank loans and overdrafts	96.1	72.4	75.8	49.0
Bills of exchange	4.3	3.9	.4	.4
Trade creditors	148.7	166.6	122.8	137.0
Due to group companies	—	—	46.3	43.3
Corporation tax	72.4	53.4	27.4	24.2
Advance corporation tax	30.1	27.3	30.1	27.3
Taxation and social security (including value added and sales taxes)	23.4	17.4	20.6	14.2
Other creditors	81.7	69.4	36.2	29.4
Accruals	36.5	28.6	10.8	7.6
Proposed dividend	60.2	52.6	60.2	52.6
	<u>553.4</u>	<u>491.6</u>	<u>430.6</u>	<u>385.0</u>

Overdrafts of certain subsidiaries amounting to £1.0m at 31st March 1989 (1988 £1.3m) were secured on the assets of those subsidiaries.

17 Creditors: amounts falling due after more than one year

Unsecured loans:				
7¾% stock 1988/93	5.7	5.7	5.7	5.7
Variable rate notes 1999	12.3	—	12.3	—
Foreign currency bank loans	.8	.6	—	—
Due to group companies	—	—	21.6	21.6
Other creditors	5.5	3.8	1.8	—
	<u>24.3</u>	<u>10.1</u>	<u>41.4</u>	<u>27.3</u>

Creditors are repayable within 5 years, except for the variable rate notes which are repayable at the option of the holder on or before 1st February, 1999. Interest on these notes is payable at the prevailing London Inter Bank Offered Rate. The 7¾% stock is repayable on or before 30th September, 1993 at the option of the company.

NOTES RELATING TO THE ACCOUNTS

18 Provisions for liabilities and charges—deferred taxation

	Group £m		Parent £m	
At 31st March 1988	18.5		16.8	
UK	(3.4)		(2.4)	
Overseas	1.6		—	
Extraordinary items	(1.3)		—	
Currency adjustments	(.8)		—	
Revaluation reserve	4.0		—	
Acquisitions	(2.2)		—	
	<u>16.4</u>		<u>14.4</u>	
	1989	1988	1989	1988
	£m	£m	£m	£m
Analysis of provision:				
Capital allowances	18.5	24.1	10.4	14.0
Capital gains taxation	4.0	—	—	—
Other items:				
UK	1.1	2.3	4.0	2.8
Overseas	(7.2)	(7.9)	—	—
	<u>16.4</u>	<u>18.5</u>	<u>14.4</u>	<u>16.8</u>
Unprovided deferred taxation:				
Capital allowances	56.5	50.3	26.8	26.6
Capital gains rolled over	35.0	32.5	.4	.5
Other items	(2.7)	(.3)	—	(.3)
	<u>88.8</u>	<u>82.5</u>	<u>27.2</u>	<u>26.8</u>

Unprovided deferred taxation on the revaluation surplus has not been quantified.

NOTES RELATING TO THE ACCOUNTS

19 Share capital

	1989 £m	1988 £m
Ordinary shares of 25p each:		
Authorised	300.0	
Allotted, called up and fully paid	231.7	230.7

Details of ordinary shares allotted during the year are as follows:

	Scrip dividends	Profit sharing scheme	Option schemes	Total
Number of shares allotted (million)	2.5	.7	.6	3.8
	—	—	—	—
	£m	£m	£m	£m
Nominal value	.6	.2	.2	1.0
Share premium	4.7	1.4	.6	6.7
	—	—	—	—
Consideration	5.3	1.6	.8	7.7
	—	—	—	—

During the year approximately 27% of shareholders, owning 6.5% of shares, elected to take all or part of their dividends in shares. A profit sharing scheme enables qualifying employees to acquire ordinary shares at market price from a cash bonus. At 31st March 1989 2,783,904 shares were held in trust for 6,362 employees.

Under a savings-related scheme options may be granted enabling employees with over three years service to subscribe for ordinary shares at approximately 90% of market price. At 31st March 1989 options exercisable from 1989 to 1996 at between 86.5p and 276p per share were outstanding in respect of 3,493,082 shares.

Under an executive share option scheme certain senior executives are granted options to subscribe for ordinary shares. At 31st March 1989 such options were outstanding as follows:

1,755,000 shares at 195p exercisable to August 1995
640,000 shares at 307p exercisable from June 1990 to June 1997
365,000 shares at 219p exercisable from December 1990 to December 1997
75,000 shares at 214p exercisable from June 1991 to June 1998
10,000 shares at 217p exercisable from November 1991 to November 1998

2,845,000

A maximum of 80 million ordinary shares is available for these schemes.

NOTES RELATING TO THE ACCOUNTS

20 Reserves

	Group				
	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Share of related companies £m	Total £m
At 31st March 1988	7.4	6.3	751.6	2.7	768.0
Profit retained	—	—	110.5	.3	110.8
Goodwill	—	—	(56.4)	—	(56.4)
Currency adjustments	—	—	11.9	(.2)	11.7
Transfers	—	(.2)	.2	—	—
Issue of shares	6.7	—	—	—	6.7
Share issue expenses	(.1)	—	—	—	(.1)
Surplus on property valuation	—	568.9	—	—	568.9
Deferred taxation	—	(4.0)	—	—	(4.0)
At 31st March 1989	<u>14.0</u>	<u>571.0</u>	<u>817.8</u>	<u>2.8</u>	<u>1405.6</u>

	Parent			
	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 31st March 1988	7.4	—	477.1	484.5
Profit retained	—	—	80.6	80.6
Issue of shares	6.7	—	—	6.7
Share issue expenses	(.1)	—	—	(.1)
Surplus on property valuation	—	32.7	—	32.7
At 31st March 1989	<u>14.0</u>	<u>32.7</u>	<u>557.7</u>	<u>604.4</u>

21 Pensions

Full actuarial valuations of the group's principal UK pension schemes were carried out as at 1st April 1986 by Messrs. Bacon & Woodrow, the schemes' consulting actuaries. Rates of contributions, together with existing assets of the schemes and income from future investments, are expected to be sufficient to meet the cost of present benefits and to provide for future pension increases on the same basis as those granted in previous years.

The results of the full actuarial valuations made as at 1st April 1989 have not yet been received.

Other group pension arrangements are not material.

NOTES RELATING TO THE ACCOUNTS

22 Commitments

	Group		Parent	
	1989 £m	1988 £m	1989 £m	1988 £m
(a) Future capital expenditure approved by the directors and not provided for in these accounts is as follows:				
Contracts placed	50.8	30.9	10.9	11.1
Contracts not placed	30.4	31.3	2.9	28.5
	<u>81.2</u>	<u>62.2</u>	<u>13.8</u>	<u>39.6</u>

(b) Annual commitments under operating leases at 31st March 1989 are as follows:

	Group		Parent	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Expiring:				
Within one year	2.9	1.2	1.2	.3
Over one year and less than five years	5.0	5.1	4.9	2.7
Over five years	48.9	.1	—	—
	<u>56.8</u>	<u>6.4</u>	<u>6.1</u>	<u>3.0</u>

(c) There is a contingent liability of up to US\$22.5m (1988 \$33.75m) in respect of potential outstanding instalments of deferred consideration for the Flint business acquired in 1986. The amounts due depend on sales levels achieved by a range of Flint products within annual periods ending on 31st December, 1990. US\$1.5m relating to the 1988 instalment has been written off as goodwill.

23 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	1989	1988
Pharmaceuticals Division	9,666	9,811
Retail Division	59,121	61,083
Central	1,180	1,179
Total employees	<u>69,967</u>	<u>72,073</u>

The aggregate payroll cost was as follows:

	£m	£m
Wages and salaries (including profit earning bonus of £22.3m (1988 £17.0m))	449.7	451.0
Social security costs	39.9	42.6
Other pension costs	17.1	14.3
	<u>506.7</u>	<u>507.9</u>

The 28 African employees of our South African company are paid above the Supplemented Living Level. Further information is available from the Secretary.

NOTES RELATING TO THE ACCOUNTS

24 Directors' shareholdings

The beneficial interests of directors and their families in the share capital of the company at 31st March are shown below. Included under 'ordinary shares' are those held in trust under the company's profit sharing scheme. Details of this scheme and the company's share option schemes are referred to in note 19 on page 37. No director holds any loan capital.

	Ordinary shares		Ordinary shares under option			
			Executive scheme		Savings scheme	
	1989	1988	1989	1988	1989	1988
K Ackroyd	22,733	20,048	137,500	137,500	5,211	5,211
Sir James Blyth	5,208	5,000	365,000	365,000	3,654	3,654
Dr E E Cliffe	21,436	15,494	137,500	137,500	4,416	7,296
P H Courtney	15,475	13,427	115,000	115,000	7,744	5,879
R N Gunn	26,535	20,169	225,000	225,000	2,055	5,161
A H Hawksworth	11,074	8,355	90,000	90,000	4,822	4,822
G M Hourston	20,072	14,771	110,000	110,000	2,055	4,396
A B Marshall	2,648	2,543	—	—	—	—
The Baroness Oppenheim-Barnes	2,242	2,186	—	—	—	—
I M G Prosser	1,072	1,030	—	—	—	—
Sir Peter Reynolds	2,400	1,546	—	—	—	—
T G Richardson	8,491	5,940	100,000	100,000	5,228	5,228
M F Ruddell	3,417	2,144	90,000	90,000	3,627	3,627
G R Solway	19,030	14,183	100,000	90,000	4,592	7,770
B H C Theobald	10,336	9,702	100,000	100,000	3,920	5,161

In addition Sir Peter Reynolds has a non-beneficial interest in 1,300 (1988 Nil) ordinary shares.

Sir Christopher Benson, who joined the board on 20th April 1989, held 2,500 ordinary shares on appointment.

Directors' holdings at 8th June 1989 are unchanged.

NOTES RELATING TO THE ACCOUNTS

25 Remuneration of directors and senior UK employees

	1989 £000	1988 £000
The following remuneration of directors and senior employees is included in aggregate payroll cost.		
(i) Remuneration of directors:		
Fees	44	48
Other remuneration	2105	1421
Payment to former director	6	—
	<u>2155</u>	<u>1469</u>

(ii) The remuneration of the chairman was £203,000 (1988 £194,000 and highest paid).

(iii) The remuneration of the highest paid director was £307,000.

(iv) An analysis of remuneration of directors (except where duties were discharged mainly outside the UK) and UK employees earning over £30,000 in the year, is shown below:

	Numbers					Numbers			
	Directors		Employees			Directors		Employees	
	1989	1988	1989	1988		1989	1988	1989	1988
£305,001 — 310,000	1	—			£75,001 — 80,000	—	2	5	—
£200,001 — 205,000	1	—			£70,001 — 75,000	—	2	8	—
£190,001 — 195,000	—	1			£65,001 — 70,000	—	—	8	1
£155,001 — 160,000	1	—			£60,001 — 65,000	—	—	6	—
£150,001 — 155,000	1	—			£55,001 — 60,000	—	—	2	4
£135,001 — 140,000	1	—			£50,001 — 55,000	—	—	11	10
£130,001 — 135,000	1	—			£45,001 — 50,000	—	—	25	12
£115,001 — 120,000	2	—			£40,001 — 45,000	—	—	38	34
£110,001 — 115,000	1	1			£35,001 — 40,000	—	—	83	42
£105,001 — 110,000	1	2	1	—	£30,001 — 35,000	1	—	174	89
£90,00 — 95,000	—	—	1	—	£25,001 — 30,000	—	1		
£85,001 — 90,000	—	2	3	—	£15,001 — 20,000	1	1		
£80,001 — 85,000	—	—	4	—	£10,001 — 15,000	3	4		

AUDITORS' REPORT

to the members of The Boots Company PLC.

We have audited the accounts on pages 24 to 41 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31st March 1989 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PEAT MARWICK McLINTOCK
Chartered Accountants, Birmingham.
8th JUNE 1989.

PRINCIPAL COMPANIES

		Percentage held by parent	
		Percentage held by subsidiaries	
		Principal activities	
Parent	The Boots Company PLC		Research, manufacturing and marketing of pharmaceuticals and consumer products
Subsidiaries	(incorporated in Great Britain)		
	Boots Development Properties Ltd.	100	Property development
	Boots Opticians Ltd.	100	Registered opticians
	Boots Properties PLC	100	Property holding
	Boots The Chemists Ltd.	100	Retail chemists
	Childrens World Ltd.	100	Retailing of goods and services for children
	Clement Clarke International Ltd.	100	Precision instrument designers and manufacturers
	Crookes Healthcare Ltd.	100	Marketing consumer products
	Farley Health Products Ltd.	100	Manufacturing consumer products
	John Weiss & Son Ltd.	100	Surgical instrument distributors
	Optrex Ltd.	100	Marketing consumer products
	Underwoods plc	100	Retail chemists
	Whites Property Co. Ltd.	100	Property holding
Subsidiaries	(incorporated overseas)		Activities refer to pharmaceuticals and consumer products unless otherwise indicated
Australia	The Boots Company (Australia) Pty. Ltd.	100	Manufacturing and marketing
Belgium	The Boots Company (Belgium) S.A.	100	Marketing
Canada	Flint Laboratories (Canada) Ltd.	100	Marketing
France	Laboratoires Boots—Dacour S.A.	92.5	Manufacturing and marketing
	Beauté, Hygiène et Soins, S.A.	100	Retailing of cosmetics and toiletries
Holland	The Boots Company (Holland) B.V.	100	Marketing
Ireland	The Boots Company (Ireland) Ltd.	100	Marketing
Italy	Boots Italia S.p.A.	100	Marketing
Kenya	The Boots Company (Kenya) Ltd.	100	Manufacturing and marketing
Malaysia	Boots Trading (Malaysia) Sdn. Bhd.	100	Marketing
	Optrex (Malaya) Sdn. Bhd.	100	Marketing
New Zealand	Boots The Chemists (New Zealand) Ltd.	100	Retail chemists and marketing
Pakistan	The Boots Company (Pakistan) Ltd.	56.5	Manufacturing and marketing
Philippines	The Boots Company (Philippines) Inc.	100	Marketing

PRINCIPAL COMPANIES

		Percentage held by parent		Percentage held by subsidiaries	
				Principal activities	
Singapore	The Boots Company (Far East) Pte. Ltd.	100			Marketing
South Africa	The Boots Company (South Africa) (Pty.) Ltd.	100			Manufacturing and marketing
Spain	Laboratorios Liade S.A.	100			Manufacturing and marketing
Thailand	The Boots Company (Thailand) Ltd.	100			Marketing
US	The Boots Company (USA) Inc.	100			Clinical development, manufacturing and marketing of pharmaceuticals
	Boots Puerto Rico, Inc.		100		Manufacturing pharmaceuticals
	Clement Clarke, Inc.		100		Precision instrument distribution and optical lens manufacturing
West Germany	Kanoldt Arzneimittel GmbH		95		Manufacturing and marketing pharmaceuticals

All shares held are ordinary shares. In addition the group owns 100% of the preference shares in Crookes Healthcare Ltd.

		Issued share capital		Percentage held	
				Principal activities	
Related companies					
India	The Boots Company (India) Ltd.	8,100,000 ordinary shares of 10 rupees paid	40		Manufacturing and marketing
Yugoslavia	OOOR Boots-Galenika		49		Manufacturing pharmaceuticals

All the companies operate principally in the country of incorporation.

GROUP FINANCIAL RECORD

	1989 £m	1988* £m	1987 £m	1986 £m	1985 £m
Turnover	2704.4	2589.8	2351.7	2126.1	2033.1
Profit on ordinary activities before taxation	306.7	257.6	242.8	210.4	190.3
Taxation	(96.8)	(75.9)	(77.4)	(72.8)	(76.6)
Profit on ordinary activities after taxation	209.9	181.7	165.4	137.6	113.7
Minority interests	(.8)	(.7)	(1.6)	(1.7)	(1.0)
	209.1	181.0	163.8	135.9	112.7
Extraordinary items	(5.7)	1.4	—	—	21.2
Profit attributable to shareholders	203.4	182.4	163.8	135.9	133.9
Dividends	(92.6)	(81.2)	(73.6)	(51.8)	(45.2)
Profit retained	110.8	101.2	90.2	84.1	88.7
Balance sheets					
Fixed assets	1282.6	666.1	620.2	574.7	504.3
Investments	3.3	3.2	4.9	2.7	3.7
Net current assets	393.5	358.1	319.1	284.4	303.7
Other creditors	(24.3)	(10.1)	(12.4)	(12.0)	(12.8)
Provisions for liabilities and charges	(16.4)	(18.5)	(17.3)	(18.8)	(25.2)
Net assets	1638.7	998.8	914.5	831.0	773.7
Represented by:					
Shareholders funds	1637.3	998.7	913.2	827.5	770.5
Minority interests	1.4	.1	1.3	3.5	3.2
	1638.7	998.8	914.5	831.0	773.7
Earnings per share	22.6p	19.6p	19.5p	18.6p	15.5p
Dividend per share	10.0p	8.8p	8.0p	7.1p	6.2p
Dividend cover	2.3	2.2	2.2	2.6	3.0
Profit on ordinary activities before taxation as % of net assets	18.7	25.8	26.6	25.3	24.6
Profit on ordinary activities after taxation as % of net assets	12.8	18.2	18.1	16.6	14.7

Net assets at 31st March, 1989 include a surplus of £568.9m on the UK property valuation.

* Results for 1988 exclude an extra quarter's results arising from the change to coterminous accounting by overseas companies.

DIVISIONAL FINANCIAL RECORD

	1989 £m	1988* £m	1987 £m	1986 £m	1985 £m
Pharmaceuticals Division					
Turnover					
UK (including exports)	315.4	323.1	284.7	244.5	226.1
Overseas	244.5	235.6	213.1	194.7	187.6
Intra-divisional	(35.3)	(39.5)	(30.5)	(34.3)	(30.7)
	<u>524.6</u>	<u>519.2</u>	<u>467.3</u>	<u>404.9</u>	<u>383.0</u>
Profit on ordinary activities before taxation					
UK	37.0	46.3	53.9	39.7	33.9
Overseas	58.0	55.5	30.6	26.9	30.3
	<u>95.0</u>	<u>101.8</u>	<u>84.5</u>	<u>66.6</u>	<u>64.2</u>
Capital expenditure	20.9	25.1	26.7	47.8	40.6
Retail Division					
Turnover					
UK	2159.9	1980.2	1799.6	1644.9	1564.6
Overseas	145.2	225.0	205.4	187.1	194.3
	<u>2305.1</u>	<u>2205.2</u>	<u>2005.0</u>	<u>1832.0</u>	<u>1758.9</u>
Profit on ordinary activities before taxation					
UK	182.8	130.8	124.8	112.0	107.1
Overseas	1.5	(4.1)	(1.4)	(.6)	1.6
	<u>184.3</u>	<u>126.7</u>	<u>123.4</u>	<u>111.4</u>	<u>108.7</u>
Surplus on disposal of properties	11.7	21.3	21.0	19.3	8.9
	<u>196.0</u>	<u>148.0</u>	<u>144.4</u>	<u>130.7</u>	<u>117.6</u>
Capital expenditure	97.0	94.4	72.4	55.3	52.4

Turnover of Pharmaceuticals Division includes sales to Retail Division.

A change in the basis of pricing of goods sold by Pharmaceuticals Division to Retail Division resulted in a reduction in Pharmaceuticals Division turnover of £21.7m and a transfer of profit of £11.4m to Retail Division in 1989.

*Results for 1988 exclude an extra quarter's results arising from the change to coterminous accounting by overseas companies.

SHAREHOLDERS

Shareholdings range	Number	%	Total Holding	%
1 — 500	30,038	24.0	7,770,867	.8
501 — 1,000	27,056	21.7	20,415,707	2.2
1,001 — 10,000	63,643	50.9	173,262,941	18.7
10,001 — 100,000	3,643	2.9	83,822,658	9.0
100,001 — 1,000,000	494	.4	171,139,956	18.5
Over 1,000,000	121	.1	470,247,084	50.8
	<u>124,995</u>		<u>926,659,213</u>	

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